



California Small Business

California Trade and Commerce Agency

September 2000

CALIFORNIA FACTS

Half of all employment is in small businesses.

There were 230,500 new small business employees in 1999.

Nearly 60 percent of the new jobs created in 1999 were in small businesses.

Ninety-eight percent of all businesses are small businesses.

Small business income rose 4.8 percent in 1997.

Approximately 1.5 million people are self-employed.

Homebased businesses are a significant and growing phenomenon.

Small businesses are an important part of the California economy. They generate jobs, provide economic opportunity and flexibility, and boost economic output.

Small businesses provide a pool of entrepreneurial experimentation from which successful firms emerge. The special expertise and agile responses of small firms can result in successful market expansions.

Smaller businesses can adjust to market changes more rapidly than a large company, and often bring new products to market more quickly. These advantages make small businesses crucial components for any productive and balanced economy.

California is home to 2.5 million small businesses, including the self-employed. Of the businesses with employees, 7.5 million people, or half of the employment is in small businesses.

The Number of Small Businesses in California

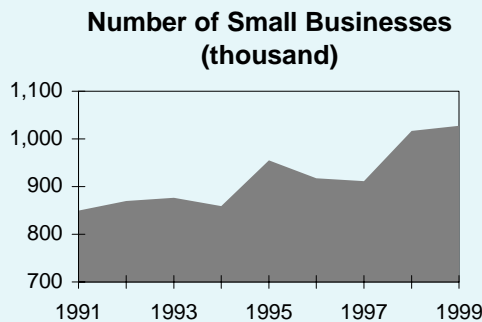
Small business is generally defined as any independently owned and operated company, with fewer than 100 employees, that is not dominant in its industry. In 1999, there were 1,049,400 businesses paying unemployment insurance in the state, as counted by the Employment Development Department (EDD). Of these, 1,026,800 were small businesses. The number of small businesses is more than doubled by the inclusion of self-employed workers who do not pay unemployment insurance.

The U.S. Bureau of the Census estimated that California had 1,500,000 self-employed workers. Combining the two sources brings the total number of small California businesses to 2.5 million. Self-employment accounts for 10 percent of total civilian employment, greater than the nationwide average of 10 percent.

The growth of small businesses was not a steady climb in the 1990s. The decade as a whole shows no pattern that corresponds to the economic cycle. Following a 1998 increase of 11.6 percent, the number of small businesses in 1999 grew just 1.0 percent.

California is home to more than two and a half million small businesses.

California



Historically, small business creation is cyclical. Business creation increases during economic recessions, due to layoffs or other factors requiring some people to find new ways to make a living. Then, when strong economic times return, some small business owners will close their doors, opting for the steady paycheck and benefits offered by many employers.

But since 1997, a number of statewide factors contributed to the success of small businesses. The continued improvement in the state and national economies created a positive atmosphere for entrepreneurs. And personal income and consumer spending increased.

The availability of financing at reasonable costs made it easier to start a company. Companies already in existence could afford expansions, upgrades, new hires and other capital outlays. The steady interest rates at relatively low levels and the availability of increasing amounts of venture capital were also factors creating a positive atmosphere for entrepreneurs.

Small Businesses with Employees

In 1999, more than 7.5 million workers were employed in business establishments with fewer than 100 workers, up 3.2 percent from 1998. The number represented half of all California employees for whom unemployment insurance is paid, according to the California Employment Development Department (EDD).

In 1999, California small businesses added 230,500 new employees, 60 percent of all the new jobs created that year.

The total number of California employees are reported in the EDD publication *Unemployment Insurance Reporting Units by Size, Industry and County, Report 524*. On page 3 is a summary of Table 2B,

Insured Employment by Employment Size of Reporting Unit. The full *Report 524* contains the data in much greater detail by county and by industry. This document, and other valuable data are available on the EDD Labor Market Information website at <http://www.calmis.ca.gov>, under Size of Firm Data. The site is also an excellent resource for projection data on occupation.

Half of all small business employment is in the services industry. Retail trade is the next largest employment sector with nearly a quarter of all the small business employees, followed by manufacturing and wholesale trade.

Home-based businesses. Many self-employed workers can work out of their homes, offering convenience and flexibility to the owner. But because many home-based businesses have no employees, or employ family members and do not pay unemployment insurance, a large number of these small businesses do not show up in official counts.

Technological advances have played a large role in allowing many home-based businesses to exist. Efficient and professional businesses can be run from the home with the help of office equipment targeted to the small and home offices. Compact desktop, laptop and palm-sized computers, as well as specially designed software, are available to send and receive data, maintain inventory and keep accounting records.



Computer equipment is designed for small and home businesses.

California Employment by Business Size, Third Quarter 1999

Industry	Total employment in businesses with the specified number of employees.									
	Total	0 to 4	5 to 9	10 to 19	20 to 49	50 to 99	100 to 249	250 to 499	500 +	
California Total	14,642,495	849,084	963,843	1,341,002	2,327,698	2,051,314	2,390,222	1,414,497	3,304,835	
Agriculture, Forestry, & Fishing	597,357	29,363	39,824	56,378	86,419	75,891	108,298	81,442	119,742	
Mining	23,134	595	1,033	1,793	3,556	3,663	6,286	3,228	2,980	
Construction	712,856	57,644	76,314	103,244	156,677	110,587	121,812	52,584	33,994	
Manufacturing	1,942,099	32,537	60,676	118,300	260,762	267,055	414,422	281,020	507,327	
Transportation & Public Utilities	715,799	24,558	31,122	49,071	95,316	101,480	146,975	84,388	182,889	
Wholesale Trade	816,887	61,406	79,823	115,630	179,897	130,074	135,189	65,506	49,362	
Durable Goods	485,898	35,458	49,447	74,765	111,674	78,663	74,149	31,284	a)	
Nondurable Goods	330,989	25,948	30,376	40,865	68,223	51,411	61,040	34,222	a)	
Retail Trade	2,413,160	119,885	224,982	329,793	617,681	481,512	375,895	157,400	106,012	
Finance, Insurance & Real Estate	816,663	76,106	74,345	87,526	121,762	100,259	117,054	71,104	168,507	
Services	4,395,370	414,565	339,179	413,803	612,193	507,170	683,014	432,501	992,945	
Federal, State & Local Government	2,159,574	16,132	27,753	56,532	185,376	269,694	278,656	184,354	1,141,077	

California Business Establishments by Industry and Size, Third Quarter 1999

Industry	Number of reporting units with specified number of employees.									
	Total	0 to 4	5 to 9	10 to 19	20 to 49	50 to 99	100 to 249	250 to 499	500 +	
California Total	1,049,380	676,431	145,591	99,039	75,977	29,747	15,972	4,149	2,474	
Agriculture, Forestry, & Fishing	36,861	21,693	5,974	4,178	2,840	1,095	713	241	127	
Mining	945	436	152	130	117	55	42	1	3	
Construction	70,666	43,625	11,527	7,664	5,196	1,619	831	159	45	
Manufacturing	57,152	23,428	8,958	8,566	8,383	3,859	2,715	821	422	
Transportation & Public Utilities	31,405	17,214	4,721	3,579	3,068	1,461	971	249	142	
Wholesale Trade	72,358	42,717	12,114	8,519	5,954	1,885	908	198	63	
Durable Goods	42,030	23,554	7,492	5,509	3,701	1,143	501	94	36	
Nondurable Goods	30,328	19,163	4,622	3,010	2,253	742	407	104	27	
Retail Trade	165,018	76,583	33,598	24,370	20,259	7,022	2,597	478	111	
Finance, Insurance & Real Estate	76,527	52,102	11,319	6,525	4,023	1,445	769	205	139	
Services	486,686	369,994	51,748	30,741	20,270	7,305	4,542	1,255	831	
Federal, State & Local Government	35,045	14,333	4,105	4,091	5,588	3,940	1,867	530	591	

a) Data are confidential.

Source: Employment Development Department, Report 524, Third Quarter 1999

UI Insured Payroll and Reporting Units by Employment Size and Reporting Unit, Classified by Standard Industrial Classification.

California

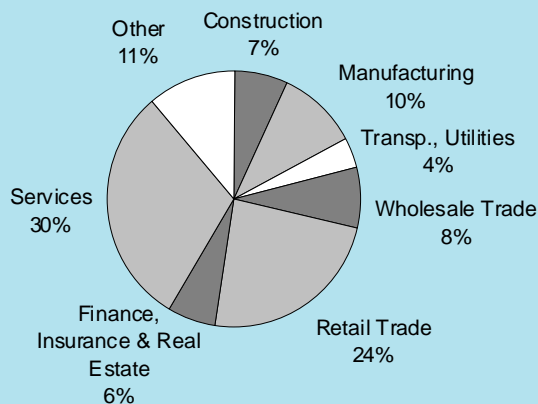
Small Business Growth Industries

About 98 percent of all California business establishments have fewer than 100 employees. In fact, most businesses (65 percent) had fewer than five employees.

New small business jobs in the services sector grew by more than 88,990 in 1999. Within the services sector, business services added 35,990 new small business jobs. Business services includes computer programming and temporary personnel services. Most of the service industries added more jobs to small businesses than to large businesses. Health services, social services, and engineering, accounting and research each added more than 10,000 new jobs.

Manufacturing lost nearly 9,700 jobs in 1999. The economic woes in Asia depressed demand for California exports of manufactured goods, particularly in the electronics industry. But, the state economy remained strong, driving new job growth in the construction industry. Construction is among the top five largest small business employers in the state. Continued demand for both residential and nonresidential construction helped add 28,650 new small business jobs in 1999.

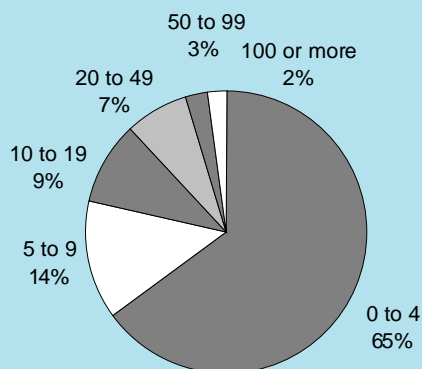
Small Business Employment by Industry



New jobs in Finance, Insurance and Real Estate were mixed. The real estate industry added 1,180 new small business jobs, and strength in the

stock market added 1,490 jobs in small business security and commodity brokers. However, credit institutions, except banks, lost 1,280 small business jobs.

Percent of Firms by Employment Size



The Number of Small Businesses

The number of reporting units is also published in the *Report 524*, under *Insured Payroll and Reporting Units by Employment Size of Reporting Unit*. An abbreviated version of the table is on the bottom portion of page 3.

As with the employment, the greatest number of small businesses were in the services industry. Retail trade was the industry with the next largest number of small businesses, followed by finance, insurance and real estate, and wholesale trade.

California represents around 11 percent of the national total of small business establishments and employees. The state's share of the annual payroll was 12 percent in 1996, the latest data available for a California comparison to the U.S.

For technology companies, the California entrepreneurial spirit remained vibrant. High technology-related products and services were in strong demand. These world-renowned products attracted a record \$16.8 billion in venture capital in 1999, representing 47 percent of the national total. More than 40 percent of venture capital dollars are invested in small start-ups.

State and Federal Business Assistance

Government programs help small businesses overcome some of the disadvantages they encounter due to their size. California state government has been supporting small businesses for more than a decade through the California Trade and Commerce Agency's Office of Small Business. Assistance is also available through the California State website at http://www.ca.gov/bus_index.shtm. Further information about state assistance is found on the next page.

Federal government support for small businesses is concentrated in the U.S. Small Business Administration. SBA offers assistance in starting, expanding and financing small businesses. For a list of the offices by state and the services they provide, see the SBA website at <http://www.sbaonline.sba.gov>

Export assistance. Many small firms could expand their markets by exporting their products. To take advantage of these international opportunities, the Trade and Commerce Agency and the International Trade Administration (ITA) of the U.S. Department of Commerce can provide export assistance programs and export financing. There is also sponsorship of international trade shows for the display of California products.

Information from the International Trade Administration is available at <http://www.ita.doc.gov>. There are 16 Export Assistance Centers in the state. There is also information export finance, market development and foreign trade zones. The latter are designated zones in or near customs points of entry. Imported goods may be sorted, repackaged or otherwise manipulated while being excluded from custom duty and excise tax until the time of transfer from the foreign trade zone.

Many California firms are related to agriculture. Export assistance is available for these firms selling food products and farm equipment to foreign countries. There are several export assistance programs in the state sponsored by the U.S. Department of Commerce. In Sacramento, the California Agriculture Team was created ([http://](http://www.fas.usda.gov)



California small business products are shipped worldwide.



www.fas.usda.gov), composed of the U.S. Department of Commerce, the U.S. Department of Agriculture, the California Department of Food and Agriculture, the Western U.S. Agricultural Trade Association, the World Trade Center and the Centers for International Trade Development (funded by community colleges).

The export assistance teams teach businesses how to sell their products to various countries, using the teams' knowledge of trade barriers, and ethnic and cultural differences. The Agriculture Team organizes trade missions with other California agriculture products at a cost substantially less than if a company conducted a trade mission on its own. In addition, the team can provide financial assistance through matching funds. The funds are usually in the range of \$5,000, but can be as much as \$100,000.

Legislation affecting business. Throughout the year, legislation is proposed and passed that can have an effect on business. To keep abreast of pending legislation, the state Legislature maintains an Internet site at <http://www.leginfo.ca.gov>.

The California Chamber of Commerce in Sacramento tracks legislation affecting business in the state. In addition, the Chamber maintains a list of other websites useful to businesses. Their website at <http://www.calchamber.com>.

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California Trade and Commerce Agency

State support for small businesses includes both financial assistance, and management and technical assistance. The Office of Small Business (OSB) is the lead office in these matters, although other groups play very important roles. California's programs represent a strong commitment to the future of small business, in a state that clearly understands that small business is big business.

California Office of Small Business

OSB offers a wide array of programs and services to the small business owners and entrepreneurs starting, buying or expanding their operations in California. Information about their services can be found on the Internet, at <http://commerce.ca.gov/business/small>.

Small Business Development Centers

The California network of Small Business Development Centers (SBDCs) links federal, state, educational and private resources for small business in the local community. The SBDC program ensures that the full range of small business services are available in rural and metropolitan areas in California. The small business services include: management, marketing, financing, accounting, strategic planning, regulation, taxation, capital formation, procurement, human resource management, production, operations, economic development, production analysis, plant layout and design, agribusiness, computer application, limited business law assistance, exporting, office automation, site selection, or any other areas of assistance required to promote small business.

The 45 SBDCs and satellite offices provide data on economic and business conditions, and offer education and training workshops. Some centers specialize in export assistance, high technology resources and disaster relief assistance to meet community needs.

SBDC is a partnership program with the U.S. Small Business Administration. For the address and telephone number of the nearest SBDC, contact

the SBDC Program in Sacramento at (916) 324-5068, or via the Internet at <http://commerce.ca.gov/business/small>.



Business assistance is available for small business owners, whether for start-ups or expansions.

Office of Small Business Loan Programs

Financial assistance is provided through a variety of programs, though the major financing program is the State Loan Guarantee Program. California provides loan guarantees to businesses unable to find conventional funding.

Loan guarantee and bonding assistance. The Small Business Financial Development Corporations (FDCs) issue loan guarantees, up to 90 percent or \$350,000 on revolving lines of credit, small business loans, agricultural loans, and other types of loans. FDCs also assist in securing bond guarantees up to \$350,000 from surety companies for highway related projects and other public works projects. For information, call (916) 324-1295.

Hazardous Waste Reduction and Underground Storage Tanks loan programs. The maximum loan for the hazardous waste reduction loan is \$150,000 and is to be used for purchasing equipment and processes that reduce emissions. The underground storage tank loans are replacing or upgrading underground petroleum tanks only. The maximum loan amount is \$750,000. Contact the Office of Small Business at (916) 322-5790.

Farm loan program. Both Valley FDC and California Coastal FDC make farm loans up to \$500,000. Valley is located in Fresno, serving the Central Valley, and can be reached at (559) 271-9030.

Small Business Capital Formation

Access to capital financing for small and growing businesses is one of the most important components of job growth and economic recovery. Capital formation ranks among the highest priorities for almost every organization that represents small businesses or has a small business constituency.

California is spawning hundreds of new and growing enterprises that daily seek access to equity and long-term debt capital. Making this private and venture capital readily available is vital to the stimulation and sustenance of our economy.

As noted earlier, many small businesses are attractive investments to venture capital firms. But not all investors are large pension funds or wealthy individuals. Nor do all businesses need capital infusions of millions of dollars. In 1995, the California Department of Corporations eased requirements for businesses interested in selling small amounts of stock to the public. Interested individuals may now invest up to \$2,500 to purchase stock, without proving their own net worth.

State and federal programs are available to assist businesses with capital formation.



Small corporate offering registration (SCOR) program. The SCOR program allows California corporations and certain foreign corporations to issue shares directly to investors using a limited public offering by registering the securities in one of the 43 states where the program is offered. Companies may raise up to \$1 million in new capital each year through SCOR filings. Call the California Department of Corporations at (415) 557-3787 or (213) 736-2731 for application forms. More information is available on the Internet at <http://www.direct-stock-market.com>.

Regulation A program. This program permits corporations and limited partnerships to raise up to \$5 million by qualifying the offering with the Securities and Exchange Commission (SEC) and with state regulators that so require. It allows stockholders to sell up to \$1.5 million in a secondary offering, subject to certain requirements. For application forms, call the SEC at (323) 965-3998 or (415) 705-2500.

Advocacy Program

The program serves as the principal advocate for small business. Advocacy assistance is provided to small businesses on a variety of issues such as problems they may encounter with state agencies or licensing requirements.

Direct assistance to small business is provided through small business conferences, seminars and workshops, the Advocate HELP-LINE (800-303-6600, or 916-327-HELP) which operates an interactive phone service that provides information on 50 different subjects such as federal and state loans, state procurement, management and technical assistance, certification and registration and available publications. Small business assistance is also available on the Internet. The address is <http://commerce.ca.gov/business/small/bizwiz/bizwizhm.html>.

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International Trade and Investment

International trade has been a cornerstone of California's economic growth. The International Trade and Investment Division (ITI) of the California Trade and Commerce Agency developed programs and policies to increase jobs in the state by promoting international business.

The California World Trade Commission (WTC), ITI's public-private advisory board, provides assistance to California's international-oriented businesses.

WTC services include the Office of Export Development which organizes trade missions, distributes product catalogs, and maintains a trade lead database.

The Export Finance Office provides an export loan guarantee program for working capital to complete export sales.



The international offices provide in-country coordination and support for trade shows, investment promotions and business missions, including direct assistance to

California's companies. There are eleven foreign offices in locations in Asia, Mexico, Europe, the Middle East and South Africa.

The Office of Foreign Investment can help identify foreign partners for direct capital investment, joint venture partnerships, licensing agreements and collaboration in research and development.

More information is available from the Trade and Commerce Agency web site for International Trade and Investment: <http://commerce.ca.gov/international>.

Office of Export Development (562) 590-5965
Export Finance Office (562) 499-6014
Foreign Operations Manager (916) 324-6050
Foreign Investment (916) 322-3518

California Small Business

STATE OF CALIFORNIA

GRAY DAVIS, GOVERNOR

TRADE AND COMMERCE AGENCY

LON HATAMIYA, SECRETARY

DIVISION OF ECONOMIC RESEARCH
AND STRATEGIC INITIATIVES

EDWARD KAWAHARA, PhD, DEPUTY SECRETARY

PREPARED BY:

OFFICE OF ECONOMIC RESEARCH

BARBARA ELLISON, RESEARCH SPECIALIST

This publication is available only on the
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<http://commerce.ca.gov/business/small>

Sources used for *California Small Business*
are available from:
California Trade and Commerce Agency
Office of Economic Research
(916) 324-5853

California Trade and Commerce Agency
California Office of Small Business
801 K Street, Suite 1700
Sacramento, CA 95814
Phone: (916) 324-5068
Fax: (916) 322-5084